

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Harman Analyst: Kristina E. North Bill Number: AB 2630

Related Bills: See Prior Analysis Telephone: 845-6978 Amended Date: June 11, 2002

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Charitable Contribution Deduction/Qualified Conservation Contributions/Allows Carryover Until Used

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED FEBRUARY 22, and AMENDED APRIL 18, and MAY 23, 2002, STILL APPLY.

OTHER - See comments below.

SUMMARY

This bill would allow farming businesses to fully use the tax benefit of contributing land for charitable purposes.

SUMMARY OF AMENDMENT

The June 11, 2002, amendments would:

- ◆ add an operative date to clarify that only an excess contribution made on or after January 1, 2002, could be carried forward indefinitely; and
- ◆ amend the definition of "farming business" to apply only to lines of business properly classified in specified sections of the Standard Industrial Classification Manual, 1987 edition.

The June 11, 2002, amendments resolved the implementation concern stated in the department's analysis of the bill as amended May 23, 2002. Except for these changes, and the new revenue estimate below, the remainder of the department's analyses of the bill as introduced February 22, and as amended April 18, and May 23, 2002, still apply. The position remains pending.

Board Position:

<u> </u> S	<u> </u> NA	<u> </u> NP
<u> </u> SA	<u> </u> O	<u> </u> NAR
<u> </u> N	<u> </u> OUA	<u> </u> X PENDING

Legislative Director

Date

Brian Putler

6/25/02

ECONOMIC IMPACT

Revenue Estimate

Discussions with the California Department of Conservation indicated an estimated \$1 million in donated easement values annually. This number reflects only donations through the California Farmland Conservancy Program, and must be doubled or tripled to capture the value of the statewide donations. Further discussions with industry experts indicated a great deal of uncertainty regarding total annual donation values. In particular, if a taxpayer donates farmland to a qualifying organization for conservation purposes, there may be no record of this activity and, therefore, existing data may well understate true donation values. Because of this uncertainty and possible incentive effects of this proposal, this estimate assumes an upper boundary for the revenue impacts.

The number given by the Department of Conservation was tripled to obtain an annual value of \$3 million. This was used as the base value for subsequent calculations. A projected annual inflation rate of 5% was applied to this base value, and a tax rate of 8% was assumed. Considering the uncertainties regarding incentive effects and future market values of donated property, the revenue loss for this bill is estimated to be minor, less than \$100,000 for the first impact year, increasing to \$200,000, and \$250,000 in the subsequent years. The first impact year would be after five years, 2007/2008.

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